COMTECH TELECOMMUNICATIONS CORP /DE/
Form 8-K
September 23, 2009

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

September 23, 2009 (September 22, 2009) Date of Report (Date of earliest event reported)	0-7928 Commission File Number

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-2139466 (I.R.S. Employer Identification Number)

68 South Service Road, Suite 230
Melville, New York 11747
(Address of Principal Executive Offices) (Zip Code)

(631) 962-7000
(Registrant’s telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 5.02(e) Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On September 22, 2009, the Executive Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Comtech Telecommunications Corp. (the "Company"), approved fiscal 2009 bonus awards for certain named executive officers (the "Named Executive Officers") in the Company's most recent Proxy Statement.

In the case of Fred Kornberg, the Company's Chairman of the Board, Chief Executive Officer and President, the Committee awarded a total cash bonus of $2,366,026. In the case of Robert L. McCollum, the Committee awarded a total cash bonus of $682,113. In the case of Daniel S. Wood, the Committee awarded a total cash bonus of $224,681. The fiscal 2009 bonus award for Michael D. Porcelain, the Company's Chief Financial Officer was $270,000. All four bonus awards include cash-incentive awards payable under the Company's 2000 Stock Incentive Plan. A portion of the award for Mr. Kornberg includes amounts payable under his employment agreement.

On September 22, 2009, the Committee also approved fiscal 2010 performance measures and bonus goals for certain executive officers. In the case of Mr. Kornberg, the Committee approved performance measures based on a percentage of the Company's fiscal 2010 pre-tax profit, adjusted for certain items. In the case of Mr. Porcelain, the Committee approved performance measures based on a percentage of the Company's fiscal 2010 pre-tax profit, adjusted for certain items and the attainment of various performance measures including personal goals. The fiscal 2010 bonus goals for the other named executive officers are based on a percentage of the relevant subsidiary's or subsidiaries' pre-tax profits and the attainment of various additional performance measures. The additional fiscal 2010 performance measures and related weightings for these other executive officers are as set forth in the chart below:

	Fiscal 2010 Performance Measures (1)				
	Operating Profit	New Orders	Cash Flow	Personal Goals	Total
Robert L. McCollum	25%	25%	25%	25%	100%
Daniel S. Wood	25%	25%	25%	25%	100%

(1) The fiscal 2010 bonus goals associated with each performance measure are not disclosed in this report because these amounts are confidential business information, the disclosure of which could have an adverse effect on the Company. The percentages in the above table represent the percentage of the total cash bonus goal related to each performance measure. Except for personal goals, the percentage factor for each performance measure can be decreased or increased proportionally as a function of each goal achievement from a minimum of 70% up to a maximum of 150%. Achievement of less than 70% of any goal results in that percentage factor being reduced to zero.

The performance measures and bonus goals relating to all executive officers are intended to qualify as "performance-based" under Section 162(m) of the Internal Revenue Code.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Comtech Telecommunications Corp. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

COMTECH TELECOMMUNICATIONS CORP.

Dated: September 23, 2009

By: /s/ Michael D. Porcelain
Name: Michael D. Porcelain
Title: Senior Vice President and Chief Financial Officer

ded
June 30,

Percent Increase (Decrease)

Six Months Ended June 30,

Percent Increase (Decrease)

2012

2011

2012

2011

(in millions, except percentages)
Domestic assessments
$
893

$
809

10%

$
1,733

$
1,532

13%
Cross-border volume fees
566

511

11%

1,097

973

13%
Transaction processing fees
753

630

19%

1,467

1,220

20%
Other revenues
269

251

7%

531

454

17%
Gross revenues
2,481

2,201

13%

4,828

4,179

16%
Rebates and incentives (contra-revenues)
(661
)

(534
)

24%

(1,250
)

(1,011
)

24%
Net revenues
$
1,820

$
1,667

9%

$
3,578

$
3,168

13%

Domestic assessments – There was an increase in domestic assessments of 10% and 13% for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011, primarily due to:

- GDV increased 15% and 17% during the three and six months ended June 30, 2012, respectively, when measured in local currency terms, and increased 9% and 13%, respectively, when measured on a U.S. dollar-converted basis versus the comparable periods in 2011.
- Pricing changes implemented in 2012 and 2011 increased domestic assessments by approximately 1 and 2 percentage points for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011.
- The net impact of foreign currency relating to the translation of domestic assessments from our functional currencies to U.S. dollars reduced domestic assessments revenue growth by approximately 4 and 3 percentage points for the three and six months ended June 30, 2012, respectively.

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Cross-border volume fees – There was an increase in cross-border volume fees of 11% and 13% for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011, primarily due to:

- Cross-border volumes increased 17% and 18% during the three and six months ended June 30, 2012, respectively, when measured in local currency terms, and increased 9% and 12%, respectively, when measured on a U.S. dollar-converted basis versus the comparable periods in 2011.
- The net impact of foreign currency relating to the translation of cross-border volume fees from our functional currencies to U.S. dollars reduced cross-border volume fees revenue growth by approximately 4 and 2 percentage points for the three and six months ended June 30, 2012, respectively.

Transaction processing fees – There was an increase in transaction processing fees of 19% and 20% for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011, primarily due to:

- Processed transactions increased 29% for each of the three and six months ended June 30, 2012, versus the comparable periods in 2011. The growth included the effects of new processing deals entered into over the past year and the impact of debit regulation in the United States. As a result, the mix of processed transactions has shifted to more PIN debit transactions which typically have a lower revenue yield than our historic average.
- Various pricing changes implemented in 2012 and 2011 increased transaction processing fees revenue by approximately 3 and 4 percentage points for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011.
- The effects of connectivity fees and other non-switching transactions also contributed to the growth in transaction processing fees for the three and six months ended June 30, 2012.
- The net impact of foreign currency relating to the translation of transaction processing fees from our functional currencies to U.S. dollars reduced transaction processing fees revenue growth by approximately 5 and 3 percentage points for the three and six months ended June 30, 2012, respectively.

Other revenues – Other revenues increased 7% and 17% for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011, primarily due to:

- Increases in other payment-related services for the three and six months ended June 30, 2012 and revenues from the April 2011 acquisition of Access Prepaid Worldwide ("Access"), without comparable revenues in the first quarter of 2011.
- Pricing changes implemented in 2012 and 2011 increased other revenues by approximately 2 and 3 percentage points for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011.
- The net impact of foreign currency relating to the translation of other revenues from our functional currencies to U.S. dollars reduced other revenues growth by approximately 3 percentage points for each of the three and six months ended June 30, 2012.

Rebates and incentives – Rebates and incentives increased 24% for each of the three and six months ended June 30, 2012, versus the comparable periods in 2011. Rebates and incentives as a percentage of gross revenues were 27% and 26% for the three and six months ended June 30, 2012, respectively. Rebates and incentives as a percentage of gross revenue were 24% for both the three and six months ended June 30, 2011. The amount of rebates and incentives increased primarily due to the following:

- New and renewed agreements and increased volumes.
- The net impact of foreign currency relating to the translation of rebates and incentives from our functional currencies to U.S. dollars reduced rebates and incentives growth by approximately 6 and 4 percentage points for the three and six months ended June 30, 2012, respectively.

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Operating Expenses

Operating expenses increased $64 million, or 8%, and $157 million, or 11%, for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011, primarily due to higher general and administrative expenses and an increase in provision for litigation settlement. Our operating expenses are comprised of general and administrative, advertising and marketing, depreciation and amortization and for the three and six months ended June 30, 2012, a provision for litigation settlement. The components of operating expenses for the three and six months ended June 30, 2012 were as follows:

	Three Months Ended June 30,		Percent Increase (Decrease)	Six Months Ended June 30,		Percent Increase (Decrease)
	2012	2011		2012	2011	
	(in millions, except percentages)					
General and administrative	$591	$540	10%	$1,170	$1,034	13%
Advertising and marketing	179	193	(7)%	304	322	(5)%
Depreciation and amortizaton	56	49	13%	110	91	21%
Provision for litigation settlement	20	—	*	20	—	*
Total operating expenses	$846	$782	8%	$1,604	$1,447	11%
Total operating expenses as a percentage of net revenues	47 %	47 %		45 %	46 %	

* Not Meaningful

General and Administrative

General and administrative expenses increased $51 million, or 10%, and $136 million, or 13%, for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011, primarily due to an increase in personnel and other expenses. The net impact of foreign currency relating to the translation of general and administrative expenses from our functional currencies to U.S. dollars reduced general and administrative expenses by approximately 2 percentage points for each of the three and six months ended June 30, 2012.

The major components of general and administrative expenses for the three and six months ended June 30, 2012 were as follows:

	Three Months Ended June 30,		Percent Increase (Decrease)	Six Months Ended June 30,		Percent Increase (Decrease)
	2012	2011		2012	2011	
	(in millions, except percentages)					
Personnel	$388	$347	12%	$765	$680	12%
Professional fees	60	62	(4)%	108	114	(5)%
Data processing and telecommunications	49	42	15%	96	82	17%
Foreign exchange activity	(8)	(6)	27%	5	(4)	*
Other	102	95	9%	196	162	22%
General and administrative expenses	$591	$540	10%	$1,170	$1,034	13%

* Not Meaningful

- Personnel expense increased 12% for each of the three and six months ended June 30, 2012, versus the comparable periods in 2011. The increase was primarily due to higher salary and benefits costs, including increased compensation related to an increase in the number of employees to support the Company's strategic initiatives.

- Foreign exchange activity includes gains and losses on foreign exchange derivative contracts and the impact of remeasurement of assets and liabilities denominated in foreign currencies. See Note 13 (Foreign Exchange Risk

Management) to the consolidated financial statements included in Part I, Item 1 of this Report. Since the Company does not designate foreign currency derivatives as hedging instruments pursuant to the accounting standards for derivative instruments and hedging activities, it records gains and losses on foreign exchange derivatives on a current basis in general and administrative expenses, with the associated offset being recognized as the exposures materialize.

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- Other expenses include travel and entertainment expenses, rental expense for our facilities, cardholder services expenses, certain operational expenses associated with the operations of Access, and other miscellaneous operating expenses. Other expenses increased for the three and six months ended June 30, 2012 versus the comparable periods in 2011 primarily due to the increased expenses associated with the Access operations, for which the Company did not have comparable expenses in the first quarter of 2011, and other increased operating expenses associated with expanding business operations.

Advertising and Marketing

Our brands, principally MasterCard, are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets globally. Our advertising and marketing strategy is to increase global MasterCard brand awareness, preference and usage through integrated advertising, sponsorship, promotional, interactive media and public relations programs on a global scale. We will continue to invest in marketing programs at the regional and local levels and sponsor diverse events aimed at multiple target audiences. Advertising and marketing expenses decreased $14 million, or 7%, and $18 million, or 5%, for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011 mainly due to the impact of foreign currency and the timing of promotional initiatives. The net impact of foreign currency relating to the translation of advertising and marketing expenses from our functional currencies to U.S. dollars reduced advertising and marketing expenses by approximately 5 and 3 percentage points for the three and six months ended June 30, 2012, respectively.

Depreciation and Amortization

Depreciation and amortization expenses increased $7 million, or 13%, and $19 million, or 21%, for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011. The increases in depreciation and amortization expenses reflected increased capitalized software associated with strategic projects and the amortization of intangible assets from the 2011 acquisition of Access.

Provision for Litigation Settlement

On July 13, 2012, the Company announced that it had agreed to a memorandum of understanding to settle the U.S. merchant litigations. During the three and six months ended June 30, 2012, the Company accrued an additional $20 million pre-tax charge related to the U.S. merchant litigations. MasterCard previously recorded a $770 million pre-tax charge in the fourth quarter of 2011 related to the U.S merchant litigations. The total accrued liability of $790 million represents an estimate of the Company's financial liability to settle the U.S. merchant litigations. There were no comparable charges in the first half of 2011. See Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion.

Other Income (Expense)

Other income (expense) is comprised primarily of investment income, interest expense, our share of income (losses) from equity method investments and other gains and losses. The decrease of $8 million for the three months ended June 30, 2012 in other net expenses versus the comparable period in 2011 was primarily due to incremental expenses from equity method investments, a decrease in interest income and an increase in interest expense from changes in uncertain tax positions, partially offset by a decrease in the interest expense resulting from non-recurring interest accretion on litigation settlements.

The decrease of $9 million for the six months ended June 30, 2012 in other net expenses versus the comparable period in 2011 was primarily due to incremental expenses from equity method investments and a decrease in interest income, partially offset by a decrease in the interest expense resulting from non-recurring interest accretion on litigation settlements.

Income Taxes

The effective income tax rates were 28.0% and 31.8% for the three months ended June 30, 2012 and 2011, respectively, and 30.0% and 32.3% for the six months ended June 30, 2012 and 2011, respectively. The tax rates for each of the three and six months ended June 30, 2012 were lower than the tax rates in each of the three and six months ended June 30, 2011 due primarily to discrete benefits relating to additional export incentives and the conclusion of tax examinations in certain jurisdictions. A more favorable geographic mix of earnings also contributed to the lower tax rates in each period.

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In 2010, in connection with the expansion of the Company's operations in the Asia Pacific, Middle East and Africa region, the Company's subsidiary in Singapore, MasterCard Asia Pacific Pte. Ltd. (“MAPPL”), received an incentive grant from the Singapore Ministry of Finance at the recommendation of the Singapore Economic Development Board. The incentive had provided MAPPL with, among other benefits, a reduced income tax rate for the 10-year period commencing January 1, 2010 on taxable income in excess of a base amount. The Company continued to explore business opportunities in this region, resulting in an expansion of the incentives being granted by the Ministry of Finance, including a further reduction to the income tax rate on taxable income in excess of a revised fixed base amount commencing July 1, 2011 and continuing through December 31, 2025. Without the incentive grant, MAPPL would be subject to the statutory income tax rate on its earnings.

Liquidity and Capital Resources

We need liquidity and access to capital to fund our global operations, to provide for credit and settlement risk, to finance capital expenditures, to make continued investments in our business and to service our potential litigation obligations. At June 30, 2012 and December 31, 2011, we had $5.0 billion and $4.9 billion, respectively, of cash and cash equivalents and current available-for-sale securities to use for our operations.

In June 2012, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $1.5 billion of its Class A common stock (the "New Program"). The New Program became effective in June 2012 at the completion of the Company's previously announced $2 billion Class A share repurchase program. During the six months ended June 30, 2012, MasterCard repurchased a total of approximately 2.3 million shares for $919 million at an average price of $404.65 per share of Class A common stock. These repurchased shares are considered treasury stock. The timing and actual number of additional shares repurchased will depend on a variety of factors, including legal requirements, price, and economic and market conditions. See Note 7 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 of this Report and Note 15 (Stockholders' Equity) in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion.

The Company believes that its existing cash balances, its cash flow generating capabilities, its borrowing capacity and its access to capital resources are sufficient to satisfy its future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations and potential litigation obligations. Cash and cash equivalents and current available-for-sale investment securities held by our foreign subsidiaries (i.e., any entities where earnings would be subject to U.S. tax upon repatriation) was $2.2 billion and $1.8 billion at June 30, 2012 and December 31, 2011, respectively, or 45% and 37% of our total cash and cash equivalents and current available-for-sale investment securities as of such dates. It is our present intention to permanently reinvest the undistributed earnings associated with our foreign subsidiaries as of December 31, 2011 outside of the United States (as disclosed in Note 19 (Income Taxes) to the consolidated financial statements included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011), and our current plans do not require repatriation of these earnings. If these earnings are needed for U.S operations or can no longer be permanently reinvested outside of the United States, the Company would be subject to U.S. tax upon repatriation.

Our liquidity and access to capital could be negatively impacted by global credit market conditions and the outcome of any of the legal or regulatory proceedings to which we are a party. See Item 1A (Risk Factors) in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and Part II, Item 1A, (Risk Factors) of this report. See also Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 of this Report; and “-Business Environment” for additional discussion of these and other risks facing our business. Additionally, our liquidity could be affected by the failure of customers to meet their settlement obligations. See Note 12 (Settlement and Other Risk Management) to the consolidated financial statements included in Part I, Item 1 of this Report and "-Business Environment" for further discussion.

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Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities for the six months ended June 30:

	Six Months Ended June 30,	
	2012	2011
	(in millions)	
Cash Flow Data:		
Net cash provided by operating activities	$1,068	$893
Net cash used in investing activities	(690)	(214)
Net cash used in financing activities	(922)	(1,083)

The table below shows a summary of the balance sheet data at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in millions)	
Balance Sheet Data:		
Current assets	$8,283	$7,741
Current liabilities	4,307	4,217
Long-term liabilities	657	599
Equity	6,276	5,877

Net cash provided by operating activities for the six months ended June 30, 2012 was $1.1 billion versus $893 million for the comparable period in 2011. Net cash provided by operating activities for the six months ended June 30, 2012 was primarily due to net income, partially offset by the net change in customer settlements and an increase in prepaid expenses. Net cash provided by operating activities for the six months ended June 30, 2011 was primarily due to net income, partially offset by litigation settlement payments.

Net cash used in investing activities for the six months ended June 30, 2012 primarily related to the purchases of investment securities, partially offset by net proceeds from sales and maturities of investment securities. Net cash used in investing activities for the six months ended June 30, 2011 primarily related to the acquisition of Access, partially offset by proceeds from maturities of investment securities.

Net cash used in financing activities for the six months ended June 30, 2012 and 2011 primarily related to the repurchase of the Company’s Class A common stock and dividend payments to our stockholders.

Dividends

On June 5, 2012, our Board of Directors declared a quarterly cash dividend of $0.30 per share payable on August 9, 2012 to holders of record on July 9, 2012 of our Class A common stock and Class B common stock. The aggregate amount of this dividend is estimated to be $37 million. On February 7, 2012, our Board of Directors declared a quarterly cash dividend of $0.30 per share payable on May 9, 2012 to holders of record on April 9, 2012 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was $38 million. This represents an increase in our historical quarterly cash dividend of $0.15 per share, with aggregate payments for quarterly dividends having totaled $38 million and $19 million for the three months ended June 30, 2012 and 2011, respectively. Aggregate payments for quarterly dividends totaled $57 million and $39 million for the six months ended June 30, 2012 and 2011, respectively.

Subject to legally available funds, we intend to continue to pay a quarterly cash dividend on our outstanding Class A common stock and Class B common stock. However, the declaration and payment of future dividends is at the sole discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, available cash and current and anticipated cash needs.

Credit Availability

On November 22, 2011, the Company extended its committed unsecured revolving credit facility, dated as of November 22, 2010 (the “Credit Facility”), for an additional year. The expiration date of the Credit Facility is November 21, 2014. The available

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funding under the Credit Facility will remain at $2.75 billion through November 22, 2013 and then decrease to $2.35 billion during the final year of the Credit Facility agreement. Other terms and conditions in the Credit Facility remain unchanged. The Company's option to request that each lender under the Credit Facility extend its commitment was provided pursuant to the original terms of the Credit Facility agreement. MasterCard had no borrowings under the Credit Facility at June 30, 2012 and December 31, 2011.

Borrowings under the Credit Facility are available to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by the Company's customers. In addition, for business continuity planning and related purposes, we may borrow and repay amounts under the Credit Facility from time to time. The facility fee and borrowing cost under the Credit Facility are contingent upon the Company's credit rating. At June 30, 2012, the applicable facility fee was 20 basis points on the average daily commitment (whether or not utilized). In addition to the facility fee, interest on borrowings under the Credit Facility would be charged at the London Interbank Offered Rate (LIBOR) plus an applicable margin of 130 basis points or an alternate base rate plus 30 basis points.

The Credit Facility contains customary representations, warranties and affirmative and negative covenants, including a maximum level of consolidated debt to earnings before interest, taxes, depreciation and amortization (EBITDA) financial covenant and events of default. MasterCard was in compliance with the covenants of the Credit Facility at June 30, 2012 and December 31, 2011. The majority of Credit Facility lenders are customers or affiliates of customers of MasterCard.

On November 4, 2009, the Company filed a universal shelf registration statement to provide additional access to capital, if needed. Pursuant to the shelf registration statement, the Company may from time to time offer to sell debt securities, preferred stock or Class A common stock in one or more offerings.

Off-Balance Sheet Arrangements

Other than settlement guarantees issued in the normal course of business, it is not our business practice to enter into off-balance sheet arrangements, see Note 12 (Settlement and Other Risk Management) to the consolidated financial statements included in Part I, Item 1 of this Report. MasterCard has no off-balance sheet debt other than lease arrangements and other commitments as presented in the future obligations table in Item 7 (Liquidity and Capital Resources) in Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Recent Accounting Pronouncements

Fair value measurement and disclosure - The Company measures certain assets and liabilities at fair value on a recurring basis by estimating the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company classifies these recurring fair value measurements into a three-level hierarchy ("Valuation Hierarchy") and discloses the significant assumptions utilized in measuring assets and liabilities at fair value.

In May 2011, the fair value accounting guidance was amended to change fair value measurement principles and disclosure requirements. The key changes in measurement principles include limiting the concepts of highest and best use and valuation premise to nonfinancial assets, providing a framework for considering whether a premium or discount can be applied in a fair value measurement, and aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. Disclosures are required for all transfers between Levels 1 and 2 within the Valuation Hierarchy, the use of a nonfinancial asset measured at fair value if its use differs from its highest and best use, the level in the Valuation Hierarchy of assets and liabilities not recorded at fair value but for which fair value is required to be disclosed, and for Level 3 measurements, quantitative information about unobservable inputs used, a description of the valuation processes used, and qualitative discussion about the sensitivity of the measurements. The Company adopted the revised accounting standard effective January 1, 2012 via prospective adoption, as required. The adoption had no impact on the Company's financial position or results of operations.

Comprehensive income - In June 2011, a new accounting standard was issued that amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. In December 2011, a new accounting standard was issued that indefinitely deferred the effective date for the requirement to present the reclassification of items from comprehensive income on the face of the financial statements. Both standards require retrospective application, and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted the revised accounting standards effective January 1, 2012. The adoption had no impact on the Company's financial position or results of operations.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates and equity price risk. Our exposure to market risk from changes in interest rates, foreign exchange rates and equity price risk is limited. Management establishes and oversees the implementation of policies governing our funding, investments and use of derivative financial instruments. We monitor risk exposures on an ongoing basis. The effect of a hypothetical 10% adverse change in foreign currency rates could result in a fair value loss of approximately $129 million on our foreign currency derivative contracts outstanding at June 30, 2012. There were no material changes in our market risk exposures related to interest rates and equity price risk at June 30, 2012 as compared to December 31, 2011. See Note 12 (Settlement and Other Risk Management) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion. The Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States includes provisions related to derivative financial instruments and the Company is determining what impact, if any, such provisions will have on the Company's financial position or results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

MasterCard Incorporated’s management, including the President and Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company’s President and Chief Executive Officer and Chief Financial Officer concluded that MasterCard Incorporated’s disclosure controls and procedures were effective as of the end of the period covered by this Report at the reasonable assurance level to accomplish their objectives of (i) recording, processing, summarizing and reporting information that is required to be disclosed in its reports under the Securities Exchange Act of 1934, as amended, within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) ensuring that information required to be disclosed in such reports is accumulated and communicated to MasterCard Incorporated’s management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

In connection with the evaluation by the Company’s President and Chief Executive Officer and its Chief Financial Officer of changes in internal control over financial reporting that occurred during the Company’s last fiscal quarter, no change in the Company’s internal control over financial reporting was identified that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Other Financial Information

With respect to the unaudited consolidated financial information of MasterCard Incorporated and its subsidiaries as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated August 1, 2012 appearing below, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the “Act”) for their report on the unaudited consolidated financial information because that report is not a “report” or a “part” of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders
of MasterCard Incorporated:

We have reviewed the accompanying consolidated balance sheet of MasterCard Incorporated and its subsidiaries (the "Company") as of June 30, 2012, and the related consolidated statements of operations and comprehensive income for the three and six-month periods ended June 30, 2012 and 2011, and the consolidated statement of changes in equity for the six-month period ended June 30, 2012, and the consolidated statement of cash flows for the six-month periods ended June 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statement of operations, of comprehensive income, of changes in equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 16, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
New York, New York
August 1, 2012

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PART II

Item 1. Legal Proceedings

Refer to Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1.

Item 1A. Risk Factors

The following risk factor supplements the risk factors set forth in Item 1A (Risk Factors) in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the "Form 10-K"):

Our recent Memorandum of Understanding to settle the current U.S. merchant class litigation sets out a binding obligation to enter into a settlement agreement that would, among other things, require the Company and Visa to permit U.S. merchants, subject to certain conditions, to surcharge credit cards, which could impact the use of electronic payments and result in a decrease in the Company's overall transaction volumes and could in turn materially and adversely impact the Company's profitability.

MasterCard has historically implemented policies, referred to as no-surcharge rules, in certain regions, including the United States, that prohibit merchants from charging higher prices to consumers who pay using MasterCard products instead of other means. As part of the terms of the settlement of the U.S. merchant class litigation attached to a Memorandum of Understanding entered into by the Company in July 2012, the Company and Visa would be required to modify their no-surcharge or comparable rules to permit U.S. merchants to surcharge credit cards, subject to certain limitations (including ensuring that MasterCard or Visa cardholders are not unfairly subject to surcharging relative to cardholders of competing credit card networks such as American Express, Discover and PayPal, should those networks enforce rules that restrict surcharging). It is possible that over time, and following the settlement becoming final, U.S. merchants in some or all merchant categories may choose to surcharge as permitted by the rule change, which could make credit card programs less desirable to consumers in the United States. In the event that such merchants surcharge credit cards, this could result in consumers using alternative means of payment instead of electronic products, which could result in a decrease in the Company's overall transaction volumes, and which in turn could materially and adversely impact the Company's profitability.

For a discussion of the Company's additional risk factors, see Item 1A (Risk Factors) in Part I of the Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
ISSUER PURCHASES OF EQUITY SECURITIES

During the second quarter of 2012, MasterCard repurchased a total of approximately 1.6 million shares for $671 million at an average price of $414.72 per share of Class A common stock. See Note 7 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion with respect to the Company's share repurchase programs. The Company’s repurchase activity during the second quarter of 2012 consisted of open market share repurchases and is summarized in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including commission cost)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that may yet be Purchased under the Plans or Programs [1]
April 1 – 30	121,582	$432.25	121,582	$ 552,195,930

May 1 – 31	681,188	$414.71	681,188	$ 269,698,600
June 1 – 30	815,268	$412.11	815,268	$ 1,433,722,196
Total	1,618,038	$414.72	1,618,038	

[1] Dollar value of shares that may yet be purchased under the Repurchase Programs is as of the end of the period.

Item 6. Exhibits
Refer to the Exhibit Index included herein.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MASTERCARD INCORPORATED
(Registrant)

Date:	August 1, 2012	By:	/S/ AJAY BANGA Ajay Banga President and Chief Executive Officer (Principal Executive Officer)
Date:	August 1, 2012	By:	/S/ MARTINA HUND-MEJEAN Martina Hund-Mejean Chief Financial Officer (Principal Financial Officer)
Date:	August 1, 2012	By:	/S/ ANDREA FORSTER Andrea Forster Corporate Controller (Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1+	MasterCard Incorporated 2006 Long Term Plan, amended and restated effective June 5, 2012.
10.2+	2006 Non-Employee Director Equity Compensation Plan, amended and restated effective June 5, 2012.
10.3+	Schedule of Non-Employee Directors' Annual Compensation (effective as of June 5, 2012).
10.4+	Form of Restricted Stock Agreement for awards under 2006 Non-Employee Director Equity Compensation Plan, amended and restated effective June 5, 2012.
10.5+	Amended and Restated MasterCard International Incorporated Executive Severance Plan, amended and restated as of June 5, 2012.
10.6+	Amended and Restated MasterCard International Incorporated Change in Control Severance Plan, amended and restated as of June 5, 2012.
10.7	Memorandum of Understanding, dated July 13, 2012, by and among Counsel for MasterCard Incorporated and MasterCard International Incorporated; Counsel for Visa, Inc., Visa U.S.A. Inc. and Visa International Service Association; Co-Lead Counsel for Class Plaintiffs; and Attorneys for the Defendant Banks (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 16, 2012 (File No. 001-32877)).
12.1	Computation of Ratio of Earnings to Fixed Charges.
15	Awareness Letter from the Company’s Independent Registered Public Accounting Firm.
31.1	Certification of Ajay Banga, President and Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Martina Hund-Mejean, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Ajay Banga, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Martina Hund-Mejean, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contracts or compensatory plans or arrangements.

Any agreements or other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and should not be relied upon for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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